

# The Underground Economy

2002 California Tax Policy Conference  
Sacramento, California  
November 13 – 15, 2002

Barbara S. Milton  
Chief, Investigations Division  
California State Employment Development Department



# **Employment Development Department**

---

## **The Underground Economy**

**Presented by: Barbara S. Milton  
Chief  
Investigation Division**

# Topics of Discussion

- ⌚ **What is the Employment Development Department (EDD)?**
- ⌚ **What is “Underground Economy”?**
- ⌚ **EDD Organization**
- ⌚ **Tax Branch -Underground Economy Operations (Civil Enforcement)**
- ⌚ **EDD Investigation Division (Criminal Enforcement)**

# Topics of Discussion (Cont'd)

- ∩ **California Unemployment Insurance Code (CUIA) Violations**
- ∩ **Common Terms & Schemes**
- ∩ **How Fraud is Committed Against the EDD?**
- ∩ **How Employers Benefit?**
- ∩ **Costs & Affects**
- ∩ **Underground Economics**
- ∩ **Contact Information**



# **What is the Employment Development Department (EDD)?**

---

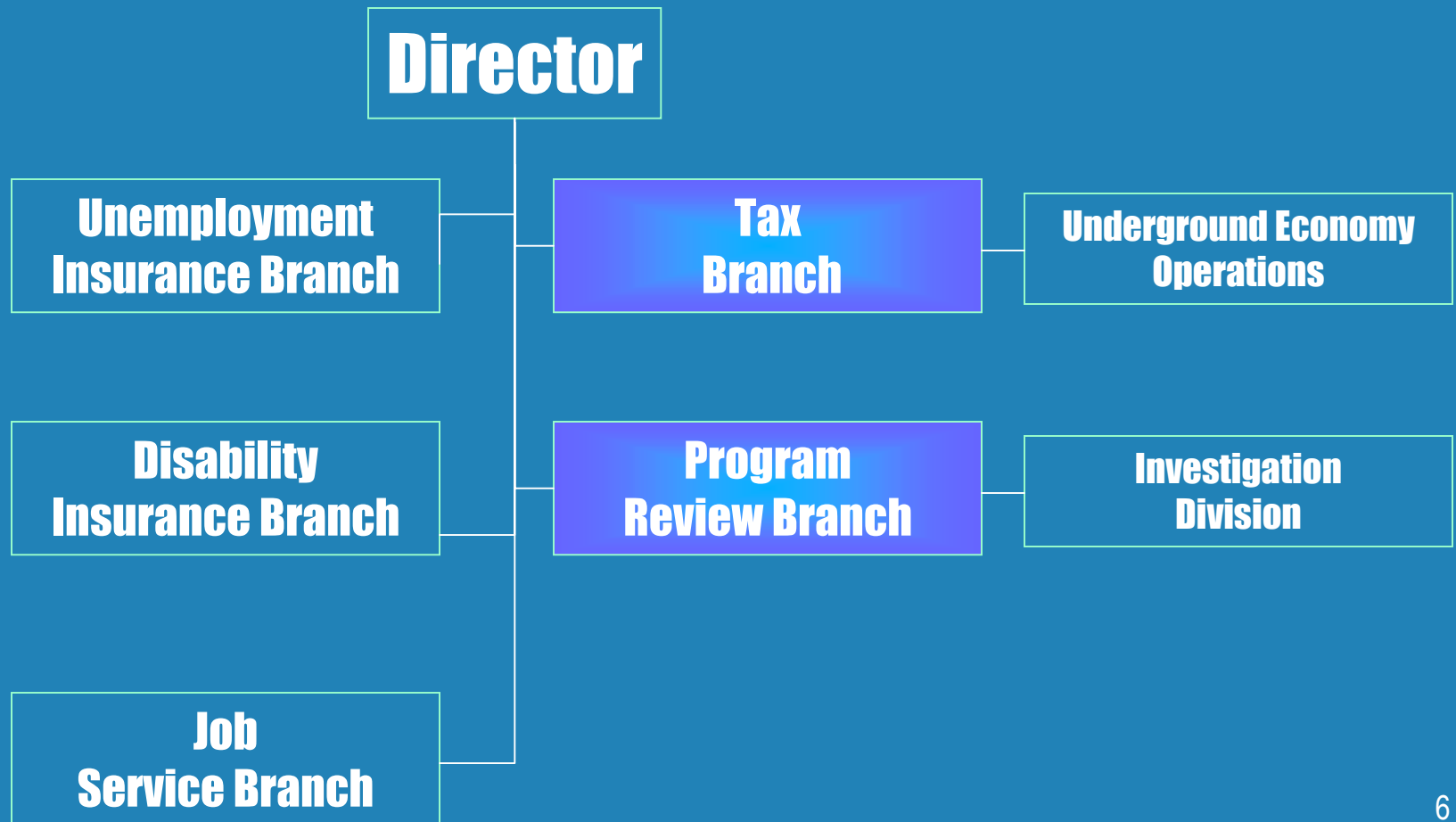
**The Employment Development Department (EDD) is the State agency responsible for the administration of Unemployment and Disability Insurance benefits. In addition, EDD is responsible for the administration and enforcement of the Employment Tax laws of the State of California as contained in the California Unemployment Insurance Code (CUIC).**

# What is “Underground Economy?”

---

- ⌚ **Business or Individual**
- ⌚ **Deal in Cash**
- ⌚ **Conceal Activities**
- ⌚ **Evade True Tax Liabilities**

# EDD Organization



# **Tax Branch Organization (Civil Enforcement)**

## **Underground Economy Operations**

### **Tax Enforcement Section**

#### **Target Groups**

- **Construction Enforcement Project**
- **Janitorial Enforcement Project**

### **Compliance Development Section**

#### **Targeted Industry Partnership Program (TIPP)**

#### **Employment Enforcement Task Force (EETF)**

#### **Joint Enforcement Strike Force (JESF)**



# Strike Force Members

- ∩ **EDD**
- ∩ **Dept. of Industrial Relations (DIR)**
- ∩ **Dept. of Consumer Affairs (DCA)**
- ∩ **Franchise Tax Board (FTB)**
- ∩ **Board of Equalization (BOE)**
- ∩ **Dept. of Justice (DOJ)**
- ∩ **Office of Criminal Justice Planning**
- ∩ **Dept. of Insurance (DOI)**

# **EDD Investigation Division**

## **(Criminal Enforcement)**

- ⌚ **58 Peace Officers to conduct criminal investigations**
- ⌚ **Investigate fraud within the EDD's programs (includes the Criminal Tax Evasion Unit).**
- ⌚ **Headquarters are located in Sacramento, San Francisco, and Anaheim with outlying offices.**
- ⌚ **Members of task forces throughout the state**
- ⌚ **Joint investigations of tax evasion cases**
- ⌚ **Anti-fraud activities -- prevention, detection, deterrence**

# California Unemployment Insurance Code (CUILC) Violations

⌚ 2108

⌚ 2109

⌚ 2110

⌚ 2114

⌚ 2117

⌚ 2117.5

⌚ 2118

⌚ 2118.5

⌚ 2121

# Common Terms & Schemes

- ⌚ **Cash Pay**
- ⌚ **Off the Books**
- ⌚ **Payments Under the Table**
- ⌚ **Tax Evasion**
- ⌚ **Tax Fraud**
- ⌚ **Tax Gap**
- ⌚ **Fictitious Employers**

# **How Fraud is Committed Against the EDD?**

**Employers evading taxes willfully and intentionally:**

- ⌚ Report employee wages to EDD, but fail to pay taxes within the statutory time period**
- ⌚ Pay wages half in cash, and half in check (fail to report the cash)**
- ⌚ Under report employee wages to EDD, resulting in a lesser tax paid**
- ⌚ Misclassify employees as independent contractors**
- ⌚ Withhold taxes from employees' wages, and pocket the withholdings**

# How Employers Benefit?

- ⌚ **Gain an unfair advantage over competitors**
- ⌚ **Direct labor is a substantial cost of doing business**
- ⌚ **Reduce costs of labor**
- ⌚ **Retain employee's State Income Tax and Disability Insurance withholdings**
- ⌚ **Reduce cost of doing business**

# How much it Costs and Who it Affects

- ∩ **IRS estimates \$1 trillion in lost revenue per year nationwide.**
- ∩ **California estimates - \$3 billion in lost income tax revenue.**
- ∩ **Affects**
  - **Businesses**
  - **Workers**
  - **Consumers**

# Underground Economics

	Regular Economy	Underground Economy
Wages	\$ 100,000	\$ 100,000
Soc Sec	6,200	-
Medicare	1,450	-
FUTA	6,200	-
ETT	100	-
	<hr/>	<hr/>
	\$ 113,950	\$ 100,000
Worker Comp	10,000	-
Health Insurance	3,000	-
Employee Benefits	3,000	-
	<hr/>	<hr/>
	\$ 129,950	\$ 100,000



# Contact Information

## ⌚ EDD Fraud Hotline

- 1 (800) 229-6297

## ⌚ Fax - Written Allegation

- 1 (866) 340-5484

## ⌚ UEO/Strike Force Hotline

- 1 (800) 528-1783

# Questions



---

?